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SUBJECT: GEORGIA BI-WEEKLY UPDATE AUGUST 3

REF: TBILISI 1702

¶1. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of July 14-August 3.

#### Commission on Ossetian Status Starts Work

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¶2. The state commission defining the status of the temporary autonomous unit of South Ossetia (reftel) held its first meeting in Tbilisi July 24 and its second meeting in Kurta July 28. As announced by Prime Minister Noghaidei, the commission's chairman, the commission consists of 40 members assigned to five groups working on legal, financial, economic, educational and cultural issues. The commission includes government officials from Tbilisi, representatives of the Georgian-backed temporary administration for South Ossetia, several ruling party MPs and one opposition MP from the Republican Party. Prime Minister Noghaidei instructed Georgian Foreign Minister Bezhuashvili to ask the Russian and EU authorities to cooperate with the commission. Georgian officials have invited officials of the de facto government in Tskhinvali to take part as well, but they have thus far refused. Further the meetings of the full commission and the working groups are planned for August.

#### Authorities Criticized over Property Rights

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¶3. Controversy has erupted over recent decisions by local government bodies to begin proceedings to seize or demolish properties. A decree signed by Tbilisi Mayor Gigi Ugulava on July 20 alleges that about 50 plots of land were privatized illegally in 1994-1999 in Tbilisi and might be subject to confiscation. The sales were illegal, the decree alleges, because the process was authorized by the Tbilisi executive government and not by the mayor, as it should have been according to the law. The decree launching the probe was signed just six days before a new law went into force providing an amnesty for privatizations that were not already under question. Media reports have also focused on the demolition of a high-rise apartment building in downtown Tbilisi -- which the government says was unsafely constructed -- leaving over 20 families homeless and drawing criticism from Georgia's Public Defender, as well as the decision of the Kobuleti Municipality (on the Black Sea) to destroy 173 buildings and thus leave over a hundred family homeless, because the owners did not have proper registration paperwork.

#### Six Months Less for Girgvliani Defendants

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¶4. On July 31, the Supreme Court reduced by six months the jail terms of four former Interior Ministry officers who were jailed for the beating death of Sandro Girgvliani in February 2006. Last year, the Tbilisi City Court sentenced the defendants to prison terms of up to eight years. An opposition politician who is a frequent critic of the government told post that the reduction was in fact a proper interpretation of a recent reform in the Criminal Code. During the trial, the Interior Ministry officers were convicted of destroying private property consisting of clothes and a cell phone. The value of the property was not determined at trial, and the revised code has now lowered the penalty for this crime based on the low value of the destroyed property. The Girgvliani family attorney

criticized the decision, and the family seeks to reopen the case to further investigation as it believes torture, which carries a stiffer penalty, was involved in the killing.

#### Dispute over Internet Freedom

15. On July 26, OSCE published a worldwide report entitled "Governing the Internet" which highlighted Georgia's laws on Internet regulation. In the report, a case study on Georgia focused in part on proposed new legislation for a code of conduct for journalists and broadcasters. The author of the study, government critic Ana Dolidze, noted that the draft contained some ambiguities that "might" impinge on Internet freedom. Otherwise, the OSCE report stipulated that the constitutional and legislative guarantees of freedom of expression make the overall situation in Georgia quite liberal. Inexplicably, international press accounts claimed the report accused Georgia of censoring the Web, lumping Georgia in with China and other serious violators of Internet freedom. Georgian officials demanded a retraction.

#### More Competition in Internet Service Market?

16. United Telecom of Georgia (UTG), a local company owned by the Kazakh firm Black Sea Telecom, has reached an agreement with Georgia's largest Internet providers, Caucasus Online (CO), a company associated with Badri Patarkatsishvili, after a contentious debate over the service tariff for CO's ADSL access via UTG-owned infrastructure. CO has agreed to pay an increased tariff, while UTG has promised to improve its services. The conflict started on July 1, when UTG announced about increase of its service tariff from 3.5 Lari (about USD 2) to 13.5 Lari (about USD 8) excluding VAT. CO, which holds 90-95 percent of the Internet market, initially refused to pay the tariff, accusing UTG of attempted to force CO's customers to switch to UTG's new Internet service. In a recent interview, Minister of Economic Development Giorgi Arveladze criticized the

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poor quality of Internet services in Georgia and warned the companies in this sector to improve their services and charge reasonable prices. According to Arveladze, three new companies have recently obtained Internet licenses and will soon enter the market. He said he believes that increased competition would help to resolve the problem.

#### Patarkatsishvili Firm to Buy Metromedia

17. On July 20, Metromedia International Group announced that Salford Georgia and Compound Capital Limited will make a cash tender offer for Metromedia's issued and outstanding shares of common stock. Metromedia's assets in Georgia are: Telecom, a local and international telephone operator, Telenet, an Internet provider, and Magticom, Georgia's leading cellular phone company, of which Metromedia owns 51 percent. Salford Georgia and Compound are private equity and investment management firms. Salford is associated with the name of expatriate oligarch Badri Patarkatsishvili, who owns a number of assets in Georgia's telecommunications, TV, real estate and entertainment sectors. Irakli Rukhadze, CEO of Salford, stressed that the proposed change in ownership will not affect the management and services of the companies. Metromedia has been one of the largest U.S. investors in Georgia since independence. Its initial investment of USD 40 million into five American-Georgian joint ventures (Telecom, Magticom, Ayety TV, Radio 105 and Paging 1) had turned into a USD 150 million dollar businesses by the end of 2006.

#### New Fitch Rating Reflects Economic Progress

18. On July 18 2007, the international rating agency Fitch gave Georgia an improved rating of "BB-" with a "Stable Outlook." Minister of Finance Lexo Alexishvili stressed that this rating is a result of Georgia's achievements with structural reforms, decreased public debt, GDP growth, increased foreign direct investment and international financial support. According to Alexishvili, the current Fitch rating will decrease interest rates on international borrowing by Georgian banks, attract more FDI, and create new jobs.

## Government Urging Exporters to Consider U.S. Market

¶9. On July 27, Minister of Economic Development Giorgi Arveladze met Georgian exporters to explain how they could take advantage of the General System of Preferences (GSP) granted to Georgia by the U.S. Arveladze stressed the importance of the recently signed TIFA agreement and called on Georgian businesses to explore the U.S. market for goods that qualify for 0% customs tariff under the GSP, including wine, mineral water, spirits, ferroalloy, canned vegetables, juices, seasonings, ceramics, crafts, and glassware. Speaking about favorable U.S.-Georgian trade relations, as compared to the protectionist policy of neighboring Turkey, Arveladze joked "Why can't we be neighbors of the U.S.?" In 2006 Georgian goods worth USD 34.5 million (three times as much as in 2005) were imported to the U.S. under GSP status and a total of USD 1.3 million was saved on customs tariffs. Arveladze mentioned the GoG's new worldwide campaign to promote Georgia's business climate, and stressed that Georgian culture could be a source of millions of dollars of profit. The Ministry is holding three back-to-back conferences starting in late October in Vienna (organized by the Economist), London, and then New York (organized by Dow Jones).

## Borjomi Finds New Markets

¶10. The producer of the well-known Borjomi mineral and spring water, Georgian Glass & Mineral Water Company (GG&MW), reported a 50% increase in exports, signaling that the company has found new markets following Russia's ban on Georgian agricultural products and drinks in early 2006. Presently GG&MW produces 5 million bottles a year. The annual growth of production is 20-25% annually. The company exports to Ukraine, Kazakhstan, and Azerbaijan, and has recently entered Uzbekistan, Kyrgyzstan, and Tajikistan. Negotiations are on to enter the Turkish market. GG&MW has also successfully resolved the problem with barium-level controls that temporarily blocked its access to EU markets. The company invested USD 30 million in the last three years in upgrading technologies and equipment. Georgian Minister of Economic Development Arveladze predicted that when the Russian market reopens, there may not be enough Borjomi water to meet the demand.

## Bread Prices Go Up

¶11. In the last week, the price of bread in Georgia went up 5.2 percent, according to Statistics Department data. The Ministry of Agriculture, which controls the Georgian wheat reserve, explained that the price increase was caused by a shortage of wheat on the world market. Georgia is expecting a better than average wheat harvest this year but domestic production can meet at most 25 percent of local demand in the best harvest years. Flour costs began climbing upwards months ago, but bakeries made lighter breads to keep retail prices stable. Bread is a key product in Georgia's consumption basket, and its price increase always triggers price jump for other products.

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